

RAPID RIVER HOUSING COMMISSION

AUDITED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION

June 30, 2005

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Rapid River Housing Commission</b>		County <b>Delta</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/26/05</b>	Date Accountant Report Submitted to State: <b>12/6/2005</b>		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x


Certified Public Accountant (Firm Name) <b>Roger J. Kolehmainen PC</b>			
Street Address <b>1445 East Cloverland Drive</b>		City <b>Ironwood</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49938</b>	

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioner  
Rapid River Housing Commission  
Rapid River, Michigan

We have audited the basic financial statements of the Rapid River Housing Commission ("Authority"), a component of the Township of Masonville, as of and for the fiscal year ended June 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Rapid River Housing Commission as of June 30, 2005, and the results of operations, and cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1B to the basic financial statements, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus Statement No. 38, Certain Financial Statement Note Disclosures and Interpretation No. 6 Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*, as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a our report on our consideration of Authority's internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting and Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements. The combining financial statements, financial data schedules, and schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Certified Public Accountant

Ironwood, Michigan  
October 26, 2005

**Rapid River Housing Commission  
Management, Discussion & Analysis  
For Fiscal Year Ending June 30, 2005**

The purpose of this MD & A is to serve as a basic tool for reading and understanding the financial statements of the Housing Commission. The information presented here should be viewed in conjunction with the Commission's financial statements. The Housing Commission's books are reported using the full accrual method, which means that all revenues and expenses are taken into account regardless of when cash is received and/or paid out. The programs are funded directly by the United States Department of Housing and Urban Development.

The following summarizes the two programs that the Rapid River Housing Commission operates on a daily basis.

### **Low Rent Public Housing**

The Housing Commission was developed in 1982 and currently owns 24 units that are provided to both elderly and disabled individuals. The Commission is responsible for management, maintenance, utilities and various other tasks associated with operating the project, also known as Riverside Manor. Each year, the Housing Commission applies for Operating Subsidy, which is funded at a level determined by HUD. In addition to tenant revenue, interest income and other miscellaneous income, the subsidy is used to provide safe and affordable housing to residents.

### **Capital Fund**

The Housing Commission is awarded this grant each year, based on HUD's available funding. It is used to for physical improvement of the property and surrounding landscape. It may also be used for equipment such as dwelling equipment, office, maintenance and community room equipment. The funds should be expended as they are drawn down through what is called a LOCCS system.

The financial statements included in this report are those of a non-profit enterprise fund engaged in a business-type activity. The following statements are included:

- Statement of Net Assets - reports on the Commission's current financial resources with capital and other assets and long-term debt obligations and other liabilities.
- Statement of Revenues, Expenses and Changes in Fund Net Assets- reports the Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.

### Statement of Net Assets

<b>Assets</b>	<b>2005</b>	<b>2004</b>	<b>Change</b>
Cash/Investments	105,673	92,884	12,789
Other Current Assets	13,575	5,124	8,451
Restricted Cash (1)		7,493	(7,493)
Capital Assets, Net	760,396	786,822	(26,426)
<b>Total Assets</b>	<b>879,644</b>	<b>892,323</b>	<b>(12,679)</b>
<b>Liabilities</b>			
Accounts Payable	2,350	3,041	(691)
A/P-Other Gov't	2,740	2,850	(110)
Other Current Liabilities	24,891	8,002	16,088
<b>Total Liabilities</b>	<b>29,981</b>	<b>13,893</b>	<b>16,088</b>
<b>Net Assets</b>			
Invested in Capital Assets	760,396	786,822	(26,426)
Unrestricted Net Assets	89,267	91,608	(2,341)
<b>Total Net Assets</b>	<b>849,663</b>	<b>878,430</b>	<b>(28,767)</b>

(1) For REAC purposes, the restricted cash is the Security Deposit Fund that is held for the sole purpose of depositing and refunding the tenants security deposits.

Total Assets for FYE 2005 total \$879,644, which is \$12,679 less than FYE 2004. Total liabilities for FYE 2005 total \$29,981, which is \$16,088 more than FYE 2004.

Net Assets declined by \$26,426 from 2004 to 2005 due mainly to the addition of \$50,747 to accumulated depreciation. The main reason for the increase in cash and investments is due to deferred revenues pertaining to CFP monies received but unspent at year end.

# Statement of Revenues, Expenses and Changes in Fund Net Assets

	2005	2004	Change
<b>Operating Revenues</b>			
Tenant Revenue	63,794	60,392	3,402
Opr Grants/Subsidy	26,648	20,615	6,033
Misc Revenue	113		113
<b>Total Operating Revenues</b>	<b>90,555</b>	<b>81,007</b>	<b>9,548</b>
<b>Operating Expenses</b>			
Administration	25,645	25,855	(210)
Tenant Services	180	180	0
Utilities	23,578	18,698	4,880
Maintenance	27,433	27,186	247
General	7,143	7,275	(132)
Extraordinary	5,458	6,079	(621)
Depreciation	50,747	53,547	(2,800)
<b>Total Operating Expenses</b>	<b>140,184</b>	<b>138,820</b>	<b>1,364</b>
<b>Opr Income/(Loss)</b>	<b>(49,629)</b>	<b>(49,629)</b>	<b>8,184</b>
<b>Nonoperating Revenues</b>			
Interest Income	1,530	1,526	4
<b>Income (Loss) before contributions/transfers</b>	<b>(48,099)</b>	<b>(56,287)</b>	<b>8,188</b>
<b>Capital Grants</b>	<b>19,332</b>	<b>30,090</b>	<b>(10,758)</b>
<b>Change in Net Assets</b>	<b>(28,767)</b>	<b>(26,197)</b>	<b>(2,570)</b>
<b>Total Assets-Beginning</b>	<b>878,430</b>	<b>904,627</b>	<b>(26,197)</b>
<b>Total Assets-Ending</b>	<b>849,663</b>	<b>878,430</b>	<b>(28,767)</b>

The total increase in revenue is approximately 2% and is mainly due to increase tenant revenue and operating subsidy. The total increase in expenses is approximately 1% and is due to slight increase in utilities.

The Housing Commission's financial success is dependent on operating and capital grants received from the US Dept of HUD. There are various local economic factors that could affect the Commission's profit or loss, such as local employment opportunities, supply and demand for local jobs and inflationary adjustments to utilities and other local suppliers. In spite of decreasing grants to PHA's, the Rapid River Housing Commission will continue to do the best job they can in providing safe, sanitary and decent housing for their residents.



### **Contacting the Commission's Financial Management**

This report was written to provide readers with a general overview of the Commission's finances and the manner in which it spends the revenue it receives. If you have questions about this report or need additional information, contact the Executive Director, at 10570 North Main Street, Rapid River, Mi 49878, or call (906) 474-9370.

**BASIC FINANCIAL STATEMENTS**

RAPID RIVER HOUSING COMMISSION  
MASONVILLE TOWNSHIP, MICHIGAN  
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COMBINED STATEMENT OF NET ASSETS

June 30, 2005

ASSETS

	<u>OPERATIONS</u>	<u>CFP</u>	<u>TOTALS</u>
<u>Current Assets</u>			
Cash and cash equivalents	\$105,673		\$105,673
Tenants receivables	403		403
Accrued interest receivable	18		18
Prepaid expenses	1,550		1,550
Inventories	2,877		2,877
Interprogram receivable		\$8,727	8,727
Total Current Assets	\$110,521	\$8,727	\$119,248
<u>Noncurrent Assets</u>			
<u>Capital Assets:</u>			
Land	1,305		1,305
Buildings	1,433,220		1,433,220
Equipment	46,149		46,149
Leasehold improvements	217,769		217,769
Accumulated depreciation	(957,379)		(957,379)
Construction in progress		19,332	19,332
Total Capital Assets	741,064	19,332	760,396
 TOTAL ASSETS	 \$851,585	 \$28,059	 \$879,644

LIABILITIES AND NET ASSETS

<u>Current Liabilities</u>			
Accounts payable	\$2,350	\$	\$2,350
Accrued payroll/taxes	3,288		3,288
Intergovernmental payables	2,740		2,740
Interprogram payable	8,727		8,727
Deferred revenues		8,727	8,727
Total Current Liabilities	\$17,105	\$8,727	\$25,832
 Other Current Liabilities-			
Tenant deposits	4,149		4,149
 <u>Net Assets</u>			
Investment in capital assets	741,064	19,332	760,396
Unrestricted	89,267		89,267
TOTAL NET ASSETS	\$830,331	\$19,332	\$849,663
 TOTAL LIABILITIES AND NET ASSETS	 \$851,585	 \$28,059	 \$879,644

The accompanying notes to financial statements are an integral part of this statement.

RAPID RIVER HOUSING COMMISSION  
MASONVILLE TOWNSHIP, MICHIGAN  
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COMBINED STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET ASSETS  
PHA OWNED HOUSING

For the Year Ended June 30, 2005

<u>OPERATING REVENUES</u>	<u>OPERATIONS</u>	<u>CFP</u>	<u>TOTALS</u>
Dwelling rental	\$57,821	\$	\$57,821
Tenant revenue-other	6,086		6,086
Operating subsidies	26,648		26,648
<b>TOTAL OPERATING REVENUE</b>	<b>\$90,555</b>	<b>\$</b>	<b>\$90,555</b>
 <u>OPERATING EXPENSES</u>			
Administration	\$25,645		\$25,645
Tenant services	180		180
Utilities	23,578		23,578
Ordinary maintenance	27,433		27,433
General expenses	7,143		7,143
Extraordinary maintenance	5,458		5,458
Depreciation	50,747		50,747
<b>TOTAL OPERATING EXPENSES</b>	<b>\$140,184</b>	<b>\$</b>	<b>\$140,184</b>
 OPERATING INCOME OR LOSS	 (\$49,629)		 (49,629)
 <u>NONOPERATING REVENUES (EXPENSES)</u>			
HUD Grants		19,332	19,332
Interest on investments	1,530		1,530
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>\$1,530</b>	<b>\$19,332</b>	<b>\$20,862</b>
 Changes in Net Assets	 (48,099)	 19,332	 (28,767)
Net Assets - Beginning of Year	824,579	53,851	878,430
Prior period adjustments	53,851	(53,851)	
<b>NET ASSETS - END OF YEAR</b>	<b>\$830,331</b>	<b>\$19,332</b>	<b>\$849,663</b>

The accompanying notes to financial statements are an integral part of this statement.

RAPID RIVER HOUSING COMMISSION  
MASONVILLE TOWNSHIP, MICHIGAN  
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COMBINED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

	<u>OPERATIONS</u>	<u>CFP</u>	<u>TOTALS</u>
Cash flows from			
Operating Activities:			
Tenants rents	\$57,963	\$	\$57,963
HUD contributions	35,375	19,332	54,707
Employees wages	(31,891)		(31,891)
Utilities	(23,538)		(23,538)
Suppliers	(29,154)		(29,154)
Net cash flows by Operating Activities	\$8,755	\$19,332	\$28,087
Cash flows from Capital and Related Financing Activities			
Purchase of fixed assets	(4,989)	(19,332)	(24,321)
Net cash flows from Capital and Financing Activities	(\$4,989)	(\$19,332)	(\$24,321)
Cash flows from Investing Activities			
Interest on investments	1,530		1,530
Net cash flows from Investing Activities	\$1,530		\$1,530
Net Change in Cash and Cash Equivalents	5,296		5,296
Cash and Cash Equivalents-beginning of year	\$100,377		\$100,377
CASH AND CASH EQUIVALENTS - END OF YEAR	\$105,673	\$	\$105,673
Cash and Cash Equivalents Are Comprised of:			
Unrestricted	\$101,524		\$101,524
Restricted	4,149		4,149
	\$105,673	\$	\$105,673

The accompanying notes to financial statements are an integral part of this statement.

RAPID RIVER HOUSING COMMISSION  
MASONVILLE TOWNSHIP, MICHIGAN  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Rapid River Housing Commission's ("The Authority"), Masonville Township, is to prepare its financial statements in accordance with generally accepted accounting principles as applicable to enterprise funds of governmental units.

A. REPORTING ENTITY - This report contains the financial information of the Rapid River Housing Commission of the Township of Masonville Township (the "Authority"), which is a component unit of the Township of Masonville. The Authority is a legally separate organization. The Township Board of Masonville appoints the five members Board of Commissioners for five-year terms. The Board sets policy of the Authority and hires the Executive Director who hires and directs the Authority's staff. The reporting entity for the Authority consists of (a) primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. This report does not contain any component units.

The Authority was established for the purpose of engaging in the development, acquisition, and administrative activities of low-income housing programs and other programs with similar objectives. The United States Department of Housing and Urban Development (HUD) has direct responsibility for administering the low-income programs under the United States Housing Act of 1937, as amended. HUD is authorized to enter into contracts with local housing authorities to make loans to assist the local housing authorities in financing the acquisition,

RAPID RIVER HOUSING COMMISSION  
MASONVILLE TOWNSHIP, MICHIGAN  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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construction and/or leasing of housing units and to make annual contributions (subsidies) to local housing authorities for the purpose of maintaining the low-rent character of the local housing programs.

B. FINANCIAL STATEMENTS - In June 1999 issued Statement No. 34 *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments* (GASB 34) and in June 2001, issued Statement No. 37 *Basic Financial Statement - and Management's Discussion and Analysis - For State and Local Governments - Omnibus*, (GASB 37), and Statement No. 38 *Certain Financial Statement Note Disclosures*.

The Authority made the decision to implement these standards effective July 1, 2003.

Statements No. 34 and 37, among many other changes, add two new "government-wide" financial statements, as basic financial statements required for all government units. The statement of net assets and the statement of activities are the two new required statements. Both statements are prepared on the full accrual basis. Previously, in accordance with accounting standards for governmental units, the Authority used the full accrual basis of accounting. Statement No. 38 requires additional note disclosures.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose.

RAPID RIVER HOUSING COMMISSION  
MASONVILLE TOWNSHIP, MICHIGAN  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION** - The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into "invested in capital assets, net of related liabilities"; "restricted for capital activity and debt service", and "unrestricted" components.

The Authority has elected to follow Financial Accounting Standards Board pronouncements issued before November 30, 1989, and all pronouncements of the Governmental Accounting Standards Board. The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for dwelling rental and administrative fees. Operating expenses for the Authority include administrative expenses, tenant expenses, maintenance and operation, housing assistance payments and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

**Deposits and Investments** - For purposes of the statement of cash flows, the Authority considers all highly liquid investment with an initial maturity of three months or less when acquired to be cash equivalents.



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MASONVILLE TOWNSHIP, MICHIGAN  
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NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustment necessary to record investments at fair value is recorded in the operating statement as increases or decreases in investment income.

See NOTE #A for further information.

Receivables - The Authority uses the direct write-off method to recognize uncollectible accounts. All receivables are shown net of allowance for doubtful accounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Mandatory segregation of assets are presented as restricted assets. Such segregations are required by loan agreements and other external parties. Current liabilities payable from these restricted assets are so classified.

Capital Assets - the Authority defines Capital assets as assets with an initial cost of more than \$50 and an estimated useful life in excess of 1 year. All capital assets are valued at historical cost, or estimated historical cost if actual amounts are unavailable. Donated fixed assets are recorded at their estimated fair value at date of donation. Additions to and replacements of capital assets are recorded at original cost, which includes material, labor, overhead, and an allowance for the cost of funds used during construction when significant. For tax-exempt debt, the amount of interest capitalized equals the interest expense incurred during construction netted against any interest revenue from temporary investment of borrowed funds proceeds. \$-0- of net interest was capitalized during the current year. The cost of renewals and betterments relating to retirement units is added to plant accounts. Depreciation of all

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MASONVILLE TOWNSHIP, MICHIGAN  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

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exhaustible fixed assets is recorded as an allocated expense in the Statement of Revenues, Expenses, and Changes in Fund Net Assets, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Building shell and components	3-40 years
Land improvements	15-20 years
Furnishing and equipment	5-20 years

Compensated Absences - Under terms of employment, employees are granted sick and vacations in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested vacation and sick leave pay is accrued when incurred.

Payments for vacation and sick leave will be made at rates in effect when the benefits are used. There was no accumulated vacation and sick leave liabilities as of June 30, 2005.

Claims and Judgments - Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred. There were not significant claims or judgments at year-end.

Equity Classifications - Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.

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NOTES TO FINANCIAL STATEMENTS  
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- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. BUDGETARY INFORMATION - The Authority is required by contractual agreements to adopt annual, appropriated operating budgets for funds receiving federal expenditure awards. All budgets are prepared on a basis prescribed by HUD, which is materially consistent with generally accepted accounting principles. All annual appropriations lapse at year-end.

Note 3 - DETAILED NOTES ON ALL FUNDS

- A. DEPOSITS AND INVESTMENTS - The Authority's deposits and investments are categorized to give an indication of the level of custodial credit risk assumed by the entity at year-end. Category 1 includes items that are insured or registered or which are collateralized by or evidenced by securities held by the Authority or its agent in the Authority's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name, or uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the Authority's name. Category 3 includes uncollateralized deposits, and uninsured and unregistered investments, with securities held by the counter party or its trust department or agent but not in the Authority's name.

	1	2	3	Totals	Fair Value
	\$100,000		\$5,673	\$105,673	\$105,673

The Authority had no significant type of investment during the year not included in the above schedule.

Deposits in each local and area bank is insured by the FDIC in the amount of \$100,000 for interest bearing accounts and \$100,000 for non-interest bearing accounts.

RAPID RIVER HOUSING COMMISSION  
MASONVILLE TOWNSHIP, MICHIGAN  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Tenant Deposits - Tenant security deposits which may be used for repairs and/or repayment upon termination of lease amounted to \$4,149 as of June 30, 2005.

**B. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Additions/ Reclassification	Deletions/ Reclassification	Ending Balance
<b>Capital Assets</b>				
<b>Not Being</b>				
<b>Depreciated</b>				
Land	\$1,305	\$	\$	\$1,305
<b>Other Capital</b>				
<b>Assets</b>				
Buildings	\$1,428,231	\$4,989	\$	\$1,433,220
Furniture, equipment and machinery-				
Dwellings	14,599			14,599
Administrative	31,550			31,550
Leasehold	217,769			217,769
improvements				
Construction in Progress		19,332		19,332
Total Capital Assets at Cost	\$1,693,454	\$24,321	\$	\$1,716,470
Less: Accumulated Depreciation	(906,632)	(50,747)		(957,379)
Net Capital Assets	\$786,822	(\$26,426)	\$	\$760,396
<b>Depreciation</b>				
<b>expense charged</b>				
<b>to as follows:</b>				
Low Rent Public Housing	\$901,981	\$55,398	\$	\$957,379
CFP	4,651		(4,651)	
Total Depreciation Expense	\$906,632	\$55,398	(\$4,651)	\$957,379

RAPID RIVER HOUSING COMMISSION  
RAPID RIVER, MICHIGAN  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
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C. SUPPLIES

The Authority's inventory consists of supplies and small tools purchased primarily for use in maintenance of rental units. A physical inventory is taken of all supplies on hand at year-end. The last in, first out pricing method is used in determining inventory valuation as of June 30, 2005.

D. USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

E. INCOME TAXES

No provision for income taxes is recorded in the accounts, as the Authority is a non-profit, tax-exempt entity under the Internal Revenue Code. The Authority is not subject to Federal or State income taxes, nor is it required to file Federal and State income tax returns.

F. CONTINGENCIES

• The Authority is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants to the Authority in current and prior years. There was no such examination completed during the year ended June 30, 2005.

• The Commission's sole asset is a 24 unit senior citizen housing project, which operates in a heavily regulated environment. The Commission is subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of congress or an administrative change mandated by HUD. Such changes may occur with little or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

RAPID RIVER HOUSING COMMISSION  
RAPID RIVER, MICHIGAN  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2005  
=====

G. PENSION

The Authority has adopted a Simplified Employee Pension Plan (SEP) covering employees who have met certain service requirements. The defined annual contribution provides for employer's match of 7.65% of gross wages. The Authority's contributions of \$2,313 are immediately vested with the employee upon payment.

H. RISK MANAGEMENT

The Authority is exposed to various risks of loss relating to property loss, torts, errors, and omissions, and employee injuries. All risks of losses are covered by commercial insurance. There was no reduction in coverage from prior years and there were neither claims filed nor settlements of claims, which exceeded insurance coverage for the year ending June 30, 2005 or the prior four years.

I. PRIOR PERIOD ADJUSTMENT

The Capital Fund Program fundings for 2002 and 2003 were reclassified to Operations upon acceptances of Modernization Cost Certificates reported in the prior years audit.

Roger J. Kolehmainen PC CPA  
1445 East Cloverland Drive  
Ironwood, MI 49938  
(906) 932-3600

Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
Government Auditing Standards

We have audited the financial statements of the Rapid River Housing Commission of Rapid River, Michigan as of and for the year ended June 30, 2005, and have issued our report thereon dated October 25, 2005. We conducted the audit in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.


Compliance

As part of obtaining reasonable assurance about whether Rapid River Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing the audit, we considered Authority's internal control over financial reporting in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, Board of Commissioners and federal awarding agency and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountant

Ironwood, Michigan  
October 25, 2005

RAPID RIVER HOUSING COMMISSION  
MASONVILLE TOWNSHIP, MICHIGAN  
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Schedule of Federal Financial Assistance  
Year Ended June 30, 2005

	<u>Federal Catalog Number</u>	<u>Grant Revenues</u>	<u>Grant Expenditures</u>
<u>US Department of HUD</u>			
Operating Subsidy	14.850a	\$26,648	\$26,648
CFP 2005	14.872	\$19,332	\$19,332



PHA: **MI187** FYED: **06/30/2005**

Line Item No.	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
111	Cash - Unrestricted	\$75,286	\$0	\$75,286
100	Total Cash	\$75,286	\$0	\$75,286
126	Accounts Receivable - Tenants - Dwelling Rents	\$403	\$0	\$403
126.1	Allowance for Doubtful Accounts - Dwelling Rents	\$0	\$0	\$0
129	Accrued Interest Receivable	\$18	\$0	\$18
120	Total Receivables, net of allowances for doubtful accounts	\$421	\$0	\$421
131	Investments - Unrestricted	\$30,387	\$0	\$30,387
142	Prepaid Expenses and Other Assets	\$1,550	\$0	\$1,550
143	Inventories	\$2,877	\$0	\$2,877
143.1	Allowance for Obsolete Inventories	\$0	\$0	\$0
144	Interprogram Due From	\$0	\$8,727	\$8,727
150	Total Current Assets	\$110,521	\$8,727	\$119,248
161	Land	\$1,305	\$0	\$1,305
162	Buildings	\$1,433,220	\$0	\$1,433,220
163	Furniture, Equipment & Machinery - Dwellings	\$14,599	\$0	\$14,599
164	Furniture, Equipment & Machinery - Administration	\$31,550	\$0	\$31,550
165	Leasehold Improvements	\$217,769	\$0	\$217,769
166	Accumulated Depreciation	\$-957,379	\$0	\$-957,379
167	Construction In Progress	\$0	\$19,332	\$19,332
160	Total Fixed Assets, Net of Accumulated Depreciation	\$741,064	\$19,332	\$760,396
180	Total Non-Current Assets	\$741,064	\$19,332	\$760,396
190	Total Assets	\$851,585	\$28,059	\$879,644

PHA: MI187 FYED: 06/30/2005

Line Item No.	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
312	Accounts Payable <= 90 Days	\$2,350	\$0	\$2,350
321	Accrued Wage/Payroll Taxes Payable	\$3,288	\$0	\$3,288
333	Accounts Payable - Other Government	\$2,740	\$0	\$2,740
341	Tenant Security Deposits	\$4,149	\$0	\$4,149
342	Deferred Revenues	\$0	\$8,727	\$8,727
347	Interprogram Due To	\$8,727	\$0	\$8,727
310	Total Current Liabilities	\$21,254	\$8,727	\$29,981
350	Total Noncurrent Liabilities	\$0	\$0	\$0
300	Total Liabilities	\$21,254	\$8,727	\$29,981
508	Total Contributed Capital	\$0	\$0	\$0
508.1	Invested in Capital Assets, Net of Related Debt	\$741,064	\$19,332	\$760,396
511	Total Reserved Fund Balance	\$0	\$0	\$0
511.1	Restricted Net Assets	\$0	\$0	\$0
512.1	Unrestricted Net Assets	\$89,267	\$0	\$89,267
513	Total Equity/Net Assets	\$830,331	\$19,332	\$849,663
600	Total Liabilities and Equity/Net Assets	\$851,585	\$28,059	\$879,644

PHA: **MI187** FYED: **06/30/2005**

Line Item No.	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
703	Net Tenant Rental Revenue	\$57,821	\$0	\$57,821
704	Tenant Revenue - Other	\$5,973	\$0	\$5,973
705	Total Tenant Revenue	\$63,794	\$0	\$63,794
706	HUD PHA Operating Grants	\$26,648	\$0	\$26,648
706.1	Capital Grants	\$0	\$19,332	\$19,332
711	Investment Income - Unrestricted	\$1,530	\$0	\$1,530
715	Other Revenue	\$113	\$0	\$113
700	Total Revenue	\$92,085	\$19,332	\$111,417

PHA: MI187 FYED: 06/30/2005

Line Item No.	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
911	Administrative Salaries	\$18,348	\$0	\$18,348
912	Auditing Fees	\$1,500	\$0	\$1,500
915	Employee Benefit Contributions - Administrative	\$1,547	\$0	\$1,547
916	Other Operating - Administrative	\$4,250	\$0	\$4,250
924	Tenant Services - Other	\$180	\$0	\$180
932	Electricity	\$13,086	\$0	\$13,086
933	Gas	\$10,492	\$0	\$10,492
941	Ordinary Maintenance and Operations - Labor	\$11,882	\$0	\$11,882
942	Ordinary Maintenance and Operations - Materials and Other	\$2,081	\$0	\$2,081
943	Ordinary Maintenance and Operations - Contract Costs	\$12,491	\$0	\$12,491
945	Employee Benefit Contributions - Ordinary Maintenance	\$979	\$0	\$979
961	Insurance Premiums	\$4,403	\$0	\$4,403
963	Payments in Lieu of Taxes	\$2,740	\$0	\$2,740
969	Total Operating Expenses	\$83,979	\$0	\$83,979
970	Excess Operating Revenue over Operating Expenses	\$8,106	\$19,332	\$27,438
971	Extraordinary Maintenance	\$5,458	\$0	\$5,458
974	Depreciation Expense	\$50,747	\$0	\$50,747
900	Total Expenses	\$140,184	\$0	\$140,184
1010	Total Other Financing Sources (Uses)	\$0	\$0	\$0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	\$-48,099	\$19,332	\$-28,767

PHA: **MI187** FYED: **06/30/2005**

Line Item No.	Account Description	Low Rent Public Housing	Public Housing Capital Fund Program	Total
1102	Debt Principal Payments - Enterprise Funds	\$0	\$0	\$0
1103	Beginning Equity	\$824,579	\$53,851	\$878,430
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	\$53,851	\$-53,851	\$0
1120	Unit Months Available	288	0	288
1121	Number of Unit Months Leased	284	0	284

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